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May 11, 2015

VIA HAND DELIVERY

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
Boise, Idaho 83702

Re: Case Nos. IPC-E-14-41 and PAC-E-14-11
Exchange of Certain Transmission Assets – Idaho Power Company and PacifiCorp's Reply Comments

Dear Ms. Jewell:

Enclosed for filing in the above matters please find an original and seven (7) copies of Idaho Power Company and PacifiCorp's Reply Comments.

Very truly yours,

Julia A. Hilton

JAH:csb
Enclosures

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF PACIFICORP DBA ROCKY MOUNTAIN POWER AND IDAHO POWER COMPANY FOR AN ORDER AUTHORIZING THE EXCHANGE OF CERTAIN TRANSMISSION ASSETS	)	CASE NOS. IPC-E-14-41 PAC-E-14-11 IDAHO POWER COMPANY AND PACIFICORP'S REPLY COMMENTS

Idaho Power Company ("Idaho Power") and PacifiCorp d/b/a Rocky Mountain Power and Pacific Power (collectively referred to as "PacifiCorp") (together, the "Parties," singularly, "Party"), in response to the Comments of the Idaho Public Utilities

Commission ("Commission") Staff ("Staff") and the Comments of the Industrial Customers of Idaho Power ("ICIP"), hereby submit the following Reply Comments.

I. PROCEDURAL BACKGROUND

On December 19, 2014, the Parties filed a joint Application with the Commission requesting approval of the exchange of certain transmission assets ("Proposed Transaction"). Pursuant to *Idaho Code* § 61-328, an electric utility must obtain approval from the Commission before it sells or transfers ownership in any generation, transmission, or distribution plant.

> Before authorizing the transaction, the public utilities commission shall find: (a) That the transaction is consistent with the public interest; (b) That the cost of and rates for supplying service will not be increased by reason of such transaction; and (c) That the applicant for such acquisition or transfer has the bona fide intent and financial ability to operate and maintain said property in the public service.

On April 22, 2015, Staff and ICIP filed Comments responding to the Parties' request.

II. DISCUSSION

A. Joint Response to Staff's Comments Recommending Approval of the Proposed Transaction Pursuant to *Idaho Code* § 61-328.

1. Staff Recommends Approval of the Proposed Transaction Pursuant to *Idaho Code* § 61-328.

Staff conducted a detailed review of the joint Application and testimony of the Parties, discovery responses, and analyzed all aspects of the Proposed Transaction, including but not limited to the following: the assets transferred that are part of the Proposed Transaction, the terms of the Joint Purchase and Sale Agreement ("JPSA") and Joint Ownership and Operating Agreement ("JOOA"), reliability and operational benefits related to the Proposed Transaction, avoided capital investments, transmission capacity improvements, financial considerations, and rate reporting. Staff states that based on its comprehensive review of the Proposed Transaction, the transaction complies with *Idaho Code* § 61-328 and should be approved by the Commission. Staff Comments at 13.

2. Proper Regulatory Treatment of the Benefits Associated with the Proposed Transaction.

Staff proposes immediate changes to retail rates to account for the financial benefits of the Proposed Transaction. Staff recommends that the financial benefits should be flowed back to customers via the Power Cost Adjustment ("PCA") for Idaho Power retail customers or the Energy Cost Adjustment Mechanism ("ECAM") for PacifiCorp retail customers upon approval of the Proposed Transaction. Currently, the PCA and ECAM track the annual deviations between transmission wheeling expenses incurred by each Party as compared to their respective normalized levels of third-party transmission expenses included in base rates. These costs are a result of purchased power and surplus sales transactions and represent payments by PacifiCorp and Idaho Power to other third parties for the use of the third-parties' transmission systems to wheel power to or from the wholesale market transaction source or destination. On the other hand, transmission wheeling revenues received from third parties represent the recovery portion of the cost of owning, operating, and maintaining the transmission system used by the Parties to wheel power to facilitate their own purchase and sale transactions. Transmission wheeling revenues are not related to third-party transmission wheeling expenses. In fact, the Parties' respective Open Access Transmission Tariff ("OATT") formula rates explicitly *exclude* third-party transmission expenses because they are not expenses related to the Parties' own transmission systems.

Retail customers receive the benefit of third-party wheeling revenues as a revenue credit in base rates. The test-year level of transmission wheeling revenues is set at the time of a general rate case to offset the test-year amount of transmission investments and expenses (or revenue requirement) customers are paying for and is applied as a revenue credit to retail customers' base rates. Current test-year levels of transmission revenues included in base rates reflect the transmission plant and expenses based on a 2011 test year for both Idaho Power and PacifiCorp. Because neither Idaho Power nor PacifiCorp update base rates annually for changes in transmission rate base and transmission expenses, it is inappropriate to track only changes in transmission revenues through the Parties' respective power cost mechanisms without a corresponding tracking of changes in transmission costs. In fact, in Order No. 32821, the Commission acknowledged that although it is reasonable to include both transmission revenues and expense differences in Idaho Power's PCA, the Commission agreed it cannot occur until a base level of transmission revenues is established in Idaho Power's next general rate case to properly track any deviations. *In re Authority to Implement PCA Rates*, IPC-E-13-10, Order No. 32821, May 31, 2013, at 13.

If the Commission finds it necessary to reflect in rates the revenue requirement changes associated with the transaction, it is important to note that PacifiCorp is currently under-earning and that revenue *deficiencies* exist for Idaho Power in 2015. Therefore, if immediate changes to retail rates are made, customers' rates may initially increase. As demonstrated in Exhibit Nos. 1 and 8, it is over the 10-year period from 2015-2024 that both Parties' present value revenue requirement impacts will show financial benefits in retail customer rates. Also, importantly, the revenue requirement analyses performed by Idaho Power assumed a change in Idaho Power's OATT formula rate to reflect the termination of the legacy transmission agreements to become effective October 2015. This assumption requires Federal Energy Regulatory Commission ("FERC") approval of Idaho Power's OATT rate computation for the October 2015 – September 2016 OATT collection period. If Idaho Power's proposed October 2015 OATT formula rate determination is not approved, the legacy transmission agreements contract demands[1] may remain in the OATT formula rate denominator for an additional year until October 2016, resulting in a lower OATT rate and under recovery of transmission system costs for Idaho Power during that interim period. If the Commission wishes to track differences in transmission revenues from some base amount as proposed by Staff, it should allow for a symmetrical tracking of any increases or decreases.

3. Compliance Filings and Documentation.

In its Comments, Staff recommends the Parties file with the Commission all final documents pertaining to the asset transfer, including the documents relating to the true-up at closing, the final journal entries, as well as the updated list of the Parties' common equipment. Both Parties accept Staff's recommendation and will file the final documents listed above. Staff also recommends an annual filing from each Party; Idaho

[1] *See* Staff's Comments at 10-11. While Staff correctly identified the formula rate impacts following the termination of the legacy transmission agreements in Equation 2, Staff's illustration of how the loads and revenues are treated in Idaho Power's formula rate currently is incorrect. The correct Equation 1 is Revenue Requirement / (Total Load + Legacy Contract Demand).

Power's annual filing will detail the change in transmission revenue as a result of the change in its OATT formula rate and PacifiCorp's annual filing will detail the change in wheeling expenses as a result of the asset transfer and the change in Idaho Power's OATT formula rate. The Parties agree to provide separate reports within the first year after closing with Idaho Power's report showing the changes in transmission revenues and PacifiCorp's report showing the change in wheeling expenses as a result of the asset exchange. However, because the impact of the asset exchange on the OATT formula rate and wheeling expenses will be more difficult to measure beyond the first year after closing, and because Idaho Power's annual OATT formula rate change is publicly available, the Parties do not see the need for ongoing annual reports.

Staff also recommends that PacifiCorp and Idaho Power submit a new transmission loss allocation methodology for review when it is completed. Because the transaction between the Parties terminates the legacy transmission agreement that outlines how losses are repaid for the services provided and defines loss repayment for transmission and generator main step-up transformer losses, Section 9.5 of the JOAA requires that the Parties develop an OATT-based losses methodology on or before the closing and to submit the methodology to FERC for approval. The Parties agree to submit the same methodology to the Commission for informational purposes only.

B. <u>ICIP's Comments Failed to Demonstrate the Proposed Transaction Does Not Meet the Requirements of *Idaho Code* § 61-328</u>.

ICIP's position is that the requirements of *Idaho Code* § 61-328 are not satisfied because the Proposed Transaction is complex and therefore creates a risk of increased rates for Idaho Power customers. ICIP Comments at 1. Accordingly, ICIP requests that: (1) the Commission defer taking action until approval of the Proposed Transaction by FERC; (2) the Commission consider "countervailing benefits"; and (3) Idaho Power and its shareholders share any identified "countervailing benefits" with customers. ICIP Comments at 1.

ICIP has failed to support its contention that the Proposed Transaction is complex and creates an actual or potential risk of increased rates for Idaho Power customers. Access to the Parties' analyses, supporting documentation, and rationale for the Proposed Transaction has been readily available to ICIP since December of 2014. Further, as part of the Commission's approval process, ICIP availed itself of the opportunity to request information and clarification on the details of the Proposed Transaction, which the Parties responded to. In spite of its active participation, ICIP offered no meaningful analysis, evaluation, or other evidence in its Comments to support its underlying contention that the Proposed Transaction is complex and must, or at least has the potential, to result in adverse impacts on Idaho customers. By contrast, Staff conducted a comprehensive review of the record, as described in Section A, and concluded the proposed transaction was in the public interest. Moreover, Staff did not express any concerns that the complexity of the transaction alone created an undue risk for customers.

ICIP's requested mitigation measures are also without merit. Section 2.9 of the JPSA clearly states that closing of the transaction is contingent on obtaining all necessary regulatory approvals from five state jurisdictions and FERC, each of which has independent jurisdiction over the approval of different aspects of the Proposed Transaction. The JOOA states clearly that its terms are void without the approval and closing of the JPSA (Section 2.1). Put simply, the Proposed Transaction and the terms of the JPSA and JOOA are only effective and implemented upon approval and closing. ICIP's request that the Commission defer taking action until approval of the Proposed Transaction by FERC is unnecessary and without legal, regulatory, or practical effect. Moreover, any deferral by the Commission would result in unnecessary delay to the detriment of the Parties who have satisfied their burden under *Idaho Code* § 61-328.[2]

ICIP made certain contentions with respect to the identification of "countervailing benefits" and suggested such benefits should be shared with customers. Specifically, ICIP recommends "immediate inclusion of the near-term benefits of the transaction." ICIP Comments at 5. As described in the Parties' Joint Response to Staff Comments in Section A.1 above, benefits should flow to customers through the normal regulatory processes and the Commission should not depart from standard regulatory ratemaking principles. The Commission should reject ICIP's contention for failing to establish why the Proposed Transaction is inconsistent with *Idaho Code* § 61-328.

III. CONCLUSION

The Parties have entered into a transaction under the JPSA and the JOOA to reallocate their respective ownership interests to meet their respective load service obligations and improve operational efficiency. The joint Application requests approval of the exchange of certain transmission assets pursuant to *Idaho Code* § 61-328. Staff performed a thorough review of the transaction and recommended approval of the exchange of the transmission assets. Both Parties estimate retail customer benefits as

[2] In its Comments, ICIP states that there is "significant opposition to the transaction in the parallel FERC proceeding." ICIP Comments at 2. This characterization is misleading and provides no basis for delay. The only party to formally protest the transaction was the Northwest & Intermountain Power Producers Coalition, which raised a number of issues that demonstrate its fundamental misunderstanding of the Proposed Transaction, legacy agreements, and FERC open access principles. The only other parties to submit comments were the Bonneville Power Administration, City of Seattle, and Powerex, with the City of Seattle intervening out-of-time and raising concerns outside the scope of the FERC proceeding and more properly addressed in a future rate case before FERC.

a result of the transaction and find it is appropriate to share those benefits with customers through normal regulatory processes, which, for both Idaho Power and PacifiCorp, is during each utility's next general rate case. Therefore, as set forward in their previously filed joint Application and testimony, the Parties request the Commission issue its Order approving the exchange of certain transmission assets between PacifiCorp and Idaho Power pursuant to *Idaho Code* § 61-328.

Respectfully submitted this 11th day of May 2015.

JULIA A. HILTON
Attorney for Idaho Power Company

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Attorneys for PacifiCorp

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 11th day of May 2015, I served a true and correct copy of IDAHO POWER COMPANY AND PACIFICORP'S REPLY COMMENTS upon the following named parties by the method indicated below, and addressed to the following:

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